

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Harrison	County Macomb
Fiscal Year End December 31, 2005	Opinion Date May 10, 2006	Date Audit Report Submitted to State June 30, 2006	

We affirm that:

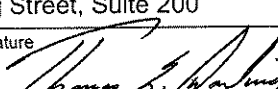
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000	
Street Address 5750 New King Street, Suite 200		City Troy	State MI
Zip 48098			
Authorizing CPA Signature 		Printed Name Thomas E. Darling, CPA	License Number A246550

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For the Year Ended
December 31, 2005

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For the Year Ended
December 31, 2005

CHARTER TOWNSHIP OF HARRISON

Macomb County, Michigan

For the Year Ended December 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
<i>FINANCIAL SECTION</i>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements	
Balance Sheet - Governmental Funds	15
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	19-20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Fire Fund	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Police Fund	22

Statement of Net Assets - Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Fund Net	
Assets - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25-26
Statement of Fiduciary Net Assets - Fiduciary Funds	27
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	28
Notes to the Financial Statements	29-50
Required Supplementary Information	
Schedule of Funding Progress - Employees Retirement Systems	51-52
Combining and Individual Fund Financial Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds	53-54
Combining Statement of Revenues, Expenditures and Changes in	
Fund Balances - Nonmajor Governmental Funds	55-56
Combining Statement of Net Assets - Fiduciary Funds	57-58
Combining Statement of Changes in Net Assets -	
Pension and Other Employee Benefit Trust Funds	59
Internal Control and Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed In Accordance with <i>Government Auditing Standards</i>	60-61

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

May 10, 2006

To the City Council
Charter Township of Harrison
Harrison Township, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Charter Township of Harrison, Michigan***, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***Charter Township of Harrison, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

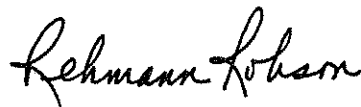
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Charter Township of Harrison, Michigan*** as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the General, Fire and Police funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2006, on our consideration of the ***Charter Township of Harrison, Michigan's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 11 and the Schedule of Funding Progress on Pages 50 and 51 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Charter Township of Harrison, Michigan's*** basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

***Management's Discussion
and Analysis***

Management's Discussion and Analysis

As management of the Charter Township of Harrison, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2005.

Financial Highlights

- Harrison Township's assets exceeded its liabilities at the close of the most recent fiscal year by \$ \$36,920,514 (*net assets*). Of this amount, \$11,171,470 (*unrestricted net assets*) may be used to meet the government's on-going obligations to citizens and creditors.
- The government's total net assets increased by \$2,980,052 over the prior year.
- Harrison Township's governmental funds reported combined ending fund balances of \$5,557,806 as of the close of the current fiscal year, an increase of \$1,304,797 in comparison with prior year. Approximately 99.6% of this total, \$5,537,408 , is available for spending at the government's discretion (unreserved fund balance).
- The Township's total bonded debt increased by \$35,000 during the current fiscal year due primarily to special assessment debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide* financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general administration, public safety, public works, health and welfare, and recreation and cultural. The business-type activities include sanitary sewer and water operations. The governmental wide financial statements can be found on the pages as indicated on the table of contents of this document.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Township's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows* of spendable resources, as well as on *balances* of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the short-range financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between *governmental funds* and *governmental activities*.

The Township maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general, fire protection, police protection, and debt service funds, each of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate

Management's Discussion and Analysis

compliance with those budgets. The basic governmental fund financial statements can be found on pages 15-22 of this report.

Proprietary funds. The Township maintains one type of proprietary fund, an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses an enterprise fund to account for its water and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements, because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on the pages as indicated in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Harrison Township, assets exceeded liabilities by \$36,920,514 at the close of the most recent fiscal year.

One of the largest portions of the Township's net assets (65%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that remains outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 13,685,487	\$ 11,311,081	\$ 7,087,239	\$ 5,872,794	\$ 20,772,726	\$ 17,183,875
Capital assets, net	4,746,461	4,751,468	21,150,048	21,992,077	25,896,509	26,743,545
Total assets	18,431,948	16,062,549	28,237,287	27,864,871	46,669,235	43,927,420
Current liabilities	6,806,636	7,306,206	535,618	732,855	7,342,254	8,039,061
Noncurrent liabilities	2,406,467	2,434,800	-	-	2,406,467	2,434,800
Total liabilities	9,213,103	9,741,006	535,618	732,855	9,748,721	10,473,861
Net assets:						
Invested in capital assets, net of related debt	2,727,826	3,071,468	21,150,048	21,992,077	23,877,874	25,063,545
Restricted assets	1,871,170	1,854,970	-	-	1,871,170	1,854,970
Unrestricted	4,619,849	1,395,105	6,551,621	5,139,939	11,171,470	6,535,044
Total net assets	\$ 9,218,845	\$ 6,321,543	\$ 27,701,669	\$ 27,132,016	\$ 36,920,514	\$ 33,453,559

Management's Discussion and Analysis

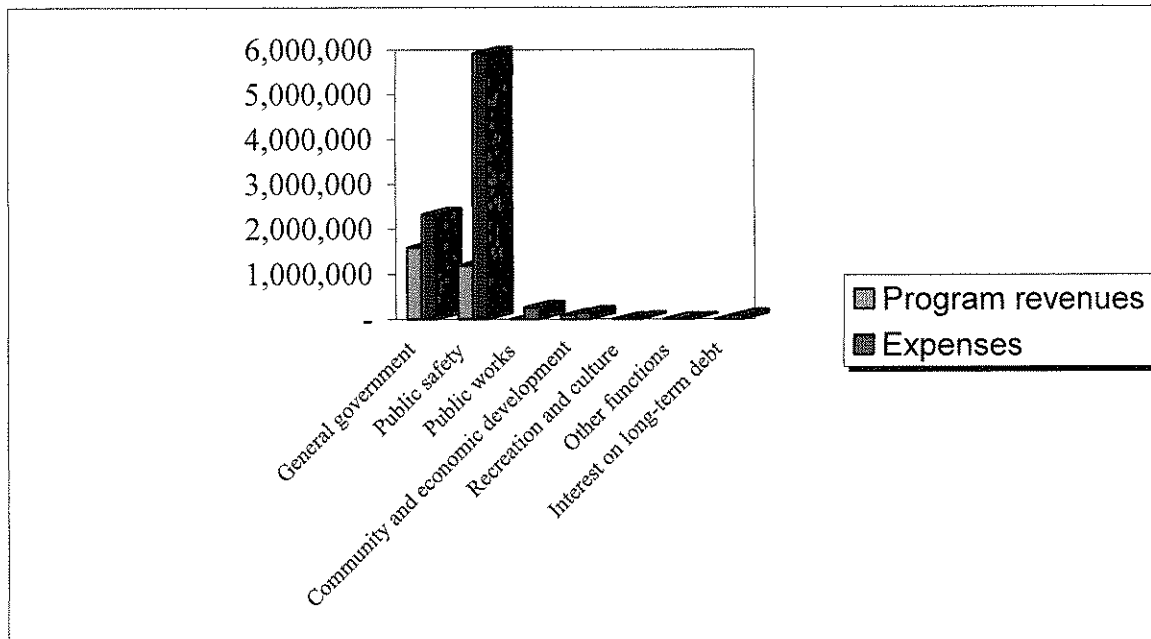
The Township's net assets are divided into the two categories of governmental activities and business-type activities. Combined net assets increased by \$2,980,052 during the current fiscal year. Net assets of governmental activities increased by \$2,549,399 for the year. The business-type activity net assets increased by \$430,653 for the year.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenues:						
Charges for services	\$ 2,774,448	\$ 1,172,506	\$ 5,637,978	\$ 4,842,710	\$ 8,412,426	\$ 6,015,216
Operating grants and contributions	89,399	95,258	-	60,959	89,399	156,217
Capital grants and contributions	23,103	199,012	186,188	856,571	209,291	1,055,583
General revenues:						
Property taxes	5,685,715	5,279,966	-	-	5,685,715	5,279,966
State shared revenue	1,912,339	2,273,219	-	-	1,912,339	2,273,219
Unrestricted Investment Earnings	251,330	151,379	162,459	57,595	413,789	208,974
Franchise Fees	308,985	281,839	-	-	308,985	281,839
Miscellaneous	265,124	190,207	10,300	61,324	275,424	251,531
Gain on sale of capital assets	-	226,438	-	-	-	226,438
Total revenues	11,310,443	9,869,824	5,996,925	5,879,159	17,307,368	15,748,983
Expenses:						
General government	2,327,919	2,498,173	-	-	2,327,919	2,498,173
Public safety	5,919,448	5,845,512	-	-	5,919,448	5,845,512
Public works	266,034	26,186	5,566,272	5,485,461	5,832,306	5,511,647
Community and economic development	143,054	141,642	-	-	143,054	141,642
Recreation and culture	21,984	36,543	-	-	21,984	36,543
Interest on long-term debt	80,730	80,212	-	-	80,730	80,212
Other Functions	1,875	-	-	-	1,875	-
Total expenses	8,761,044	8,628,268	5,566,272	5,485,461	14,327,316	14,113,729
Increase in net assets before transfers	2,549,399	1,241,556	430,653	393,698	2,980,052	1,635,254
Transfers		118,000		(118,000)		
Increase (decrease) in net assets	2,549,399	1,359,556	430,653	275,698	2,980,052	1,635,254
Net assets-beginning, as restated	6,669,446	4,961,987	27,271,016	26,856,318	33,940,462	31,818,305
Net assets-ending	\$ 9,218,845	\$ 6,321,543	\$ 27,701,669	\$ 27,132,016	\$ 36,920,514	\$ 33,453,559

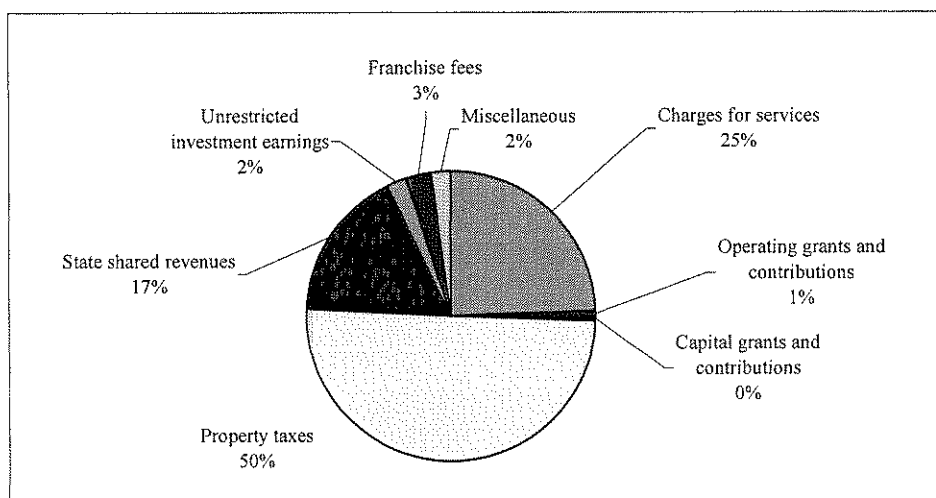
Governmental Activities. Governmental activities increased the Township's net assets by \$2,549,399 or 86% for the year. This increase is a result of Township revenues exceeding expenses. The Township's three largest revenue sources are property taxes at 50% of the total, State shared revenue at 17% of the total and charges for services at 25% of the total. The Township's total governmental expenses at \$ 8,761,044 , increased primarily in the category of other functions due to insurance premiums. Charges for service revenue increased because of increased water rates and new special assessments. The increase in public works expense was caused by construction costs associated with the new special assessments.

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



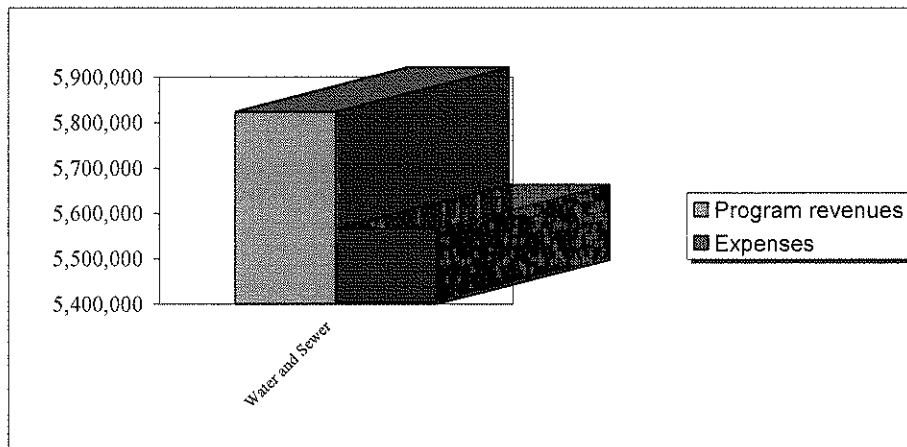
Revenues by Source – Governmental Activities



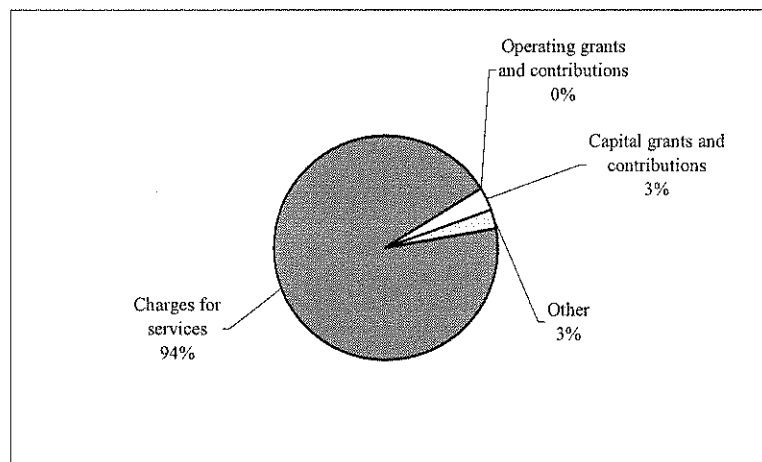
Management's Discussion and Analysis

Business-type Activities. Harrison Township's only business-type activity is comprised of the Water and Sewer Department. The Township operates a water distribution system providing its customers with water supplied by Detroit and Mt. Clemens. The Township also maintains a sewer collection system that is connected to the City of Detroit sewage disposal network. The Water Department's revenue has increased by \$117,766 due to additional water and sewer sales resulting from new construction..

Expenses and Program Revenues – Business-Type Activities



Revenues by Source – Business-Type Activities



Management's Discussion and Analysis

Financial Analysis of the Harrison Township Funds

As noted earlier, Harrison Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$5,557,806 , an increase of \$1,304,797 in comparison with prior year. Approximately 99.6% of this total amount (\$5,537,408) constitutes *unreserved* fund balance, which is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending.

The General fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the General fund was \$3,492,238 with a total fund balance of \$3,512,238 at year end. As a measure of the General fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 134% of total General fund expenditures.

The fund balance of the Township's General fund increased by \$790,344 during the current fiscal year. The increase is attributable on the revenue side to improved return on investments, and higher than anticipated cable television franchise fees; and on the expenditure side to conservative spending in general, but specifically for wage and fringe benefit expense.

The Fire Protection Fund has a total fund balance of \$686,006 , which increased by \$275,721 during the year. The board anticipates using much of the increase for equipment replacement.

The Police Fund has \$67,658 in total fund balance, which represents an increase of \$58,388 for the year.

Proprietary Fund. The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of the Water and Sewer fund amounted to \$27,701,669 at year-end. This fund had an increase in net assets of \$430,653 for the year. Revenue increased over last year due to increased volume of water and sewer usage, and also for higher line tap fees resulting from the strong housing construction activity.

Management's Discussion and Analysis

General Fund Budgetary Highlights

No amendments were made to the budget this year.

Actual revenue was very similar to budgeted revenue for the year. Expenses were \$570,199 less than budgeted, mostly due to \$300,000 that was budgeted for emergency contingency funds that was not spent and staff reductions resulting in less than anticipated spending.

Capital Asset and Debt Administration

Capital Assets. Harrison Township's investment in capital assets for its governmental and business-type activities as of December 31, 2005 amounted to \$25,896,509 (net of depreciation). Investment in capital assets includes land, buildings and improvements, fire equipment, water and sewer lines, and park facilities. Construction was completed and the new fire station was put into use this year.

Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 580,158	\$ 580,158	\$ 704,292	\$ 704,292	\$ 1,284,450	\$ 1,284,450
Construction in progress	-	2,315,056	84,237	12,183	84,237	2,327,239
Buildings	2,958,881	737,279	390,353	406,532	3,349,234	1,143,811
Equipment	670,203	567,931	438,010	648,341	1,108,213	1,216,272
Infrastructure	537,219	551,043	19,533,156	20,220,640	20,070,375	20,771,683
Total	<u>\$ 4,746,461</u>	<u>\$ 4,751,467</u>	<u>\$ 21,150,048</u>	<u>\$ 21,991,988</u>	<u>\$ 25,896,509</u>	<u>\$ 26,743,455</u>

Long-term Debt. The Township had total general obligation and commitment debt of \$1,940,000 outstanding at the end of the fiscal year. Of this amount, \$920,000 comprises debt backed by the full faith and credit of the Township, and \$1,020,000 is special assessment debt for which the Township is liable in the event of default by the property owners subject to the assessments. The general obligation bonds were issued in prior years for construction of the new fire station. There was no outstanding debt at year for Water & Sewer system projects.

Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 920,000	\$ 970,000	\$ -	\$ -	\$ 920,000	\$ 970,000
Special assessment debt						
with governmental commitment	1,020,000	935,000	-	-	1,020,000	935,000
	<u>\$ 1,940,000</u>	<u>\$ 1,905,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,940,000</u>	<u>\$ 1,905,000</u>

Management's Discussion and Analysis

The Township's total debt increased by \$35,000, or 4.5% during the fiscal year. One new special assessment bond was issued for \$220,000. However, regularly scheduled bond payments made in the amount of \$185,000 accounted for the overall increase.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the fiscal year 2006 budget:

- Because the community is primarily residential, requiring that citizens commute elsewhere for employment, employment rates reflect those of the southeast Michigan as a whole. Macomb county is however, currently performing better than the surrounding area, and is experiencing economic growth that neighboring communities are not. Industry in the area and statewide is shifting from a manufacturing base to retail and service, causing some economic disruption. Harrison Township has one advantage in that it is located along the shoreline of Lake St. Clair which provides a relatively stable marine sales and service industry.
- The Township is comprised principally of residential areas with one commercial corridor.
- Although the construction industry is expecting a downturn in the near future, residential construction in Harrison Township continues at historically high levels.
- Inflationary trends in the region mirror that of the nation overall.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for those with an interest in Harrison Township. Questions concerning any of the information should be addressed to the Township Accounting Department, 38151 L'Anse Creuse, Harrison Township, MI 48045.

*Basic
Financial Statements*

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Net Assets

December 31, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Assets				
Cash and cash equivalents	\$ 2,090,202	\$ 954,414	\$ 3,044,616	\$ 11,921
Investments	2,995,000	4,950,000	7,945,000	-
Receivables	8,346,005	1,215,987	9,561,992	-
Internal balances	233,882	(233,882)	-	-
Inventory	-	200,720	200,720	-
Prepaid items and other assets	20,398	-	20,398	-
Non-depreciable capital assets	580,158	788,529	1,368,687	-
Depreciable capital assets	4,166,303	20,361,519	24,527,822	-
Total assets	<u>18,431,948</u>	<u>28,237,287</u>	<u>46,669,235</u>	<u>11,921</u>
Liabilities				
Accounts payable	347,959	465,291	813,250	-
Accrued liabilities	89,293	70,327	159,620	-
Unearned revenue	6,134,038	-	6,134,038	-
Noncurrent liabilities:				
Due within one year	235,346	-	235,346	-
Due in more than one year	2,406,467	-	2,406,467	-
Total liabilities	<u>9,213,103</u>	<u>535,618</u>	<u>9,748,721</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	2,727,826	21,150,048	23,877,874	-
Restricted for:				
Capital projects	315,138	-	315,138	-
Public safety	753,664	-	753,664	-
Debt service	802,368	-	802,368	-
Unrestricted	4,619,849	6,551,621	11,171,470	11,921
Total net assets	<u>\$ 9,218,845</u>	<u>\$ 27,701,669</u>	<u>\$36,920,514</u>	<u>\$ 11,921</u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 2,327,919	\$ 1,592,237	\$ -	\$ -
Public safety	5,919,448	1,168,954	2,300	23,103
Public works	266,034	-	-	-
Community and economic development	143,054	-	87,099	-
Recreation and culture	21,984	-	-	-
Other functions	1,875	13,257	-	-
Interest on long-term debt	80,730	-	-	-
Total governmental activities	<u>8,761,044</u>	<u>2,774,448</u>	<u>89,399</u>	<u>23,103</u>
Business-type activity -				
Water and Sewer	<u>5,566,272</u>	<u>5,637,978</u>	<u>-</u>	<u>186,188</u>
Total primary government	<u>\$ 14,327,316</u>	<u>\$ 8,412,426</u>	<u>\$ 89,399</u>	<u>\$ 209,291</u>
Component unit - Economic Development Corporation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

continued...

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Activities (Concluded)

For the Year Ended December 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (5,874,094)	\$ 257,894	\$ (5,616,200)	\$ -
General revenues:				
Property taxes	5,685,715	-	5,685,715	-
State shared revenue	1,912,339	-	1,912,339	-
Unrestricted investment earnings	251,330	162,459	413,789	-
Franchise fees	308,985	-	308,985	-
Miscellaneous	265,124	10,300	275,424	-
Total general revenues	8,423,493	172,759	8,596,252	-
Change in net assets	2,549,399	430,653	2,980,052	-
Net assets, beginning of year (as restated)	6,669,446	27,271,016	33,940,462	11,921
Net assets, end of year	<u>\$ 9,218,845</u>	<u>\$ 27,701,669</u>	<u>\$ 36,920,514</u>	<u>\$ 11,921</u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Balance Sheet Governmental Funds December 31, 2005

	General	Fire Fund	Police Fund	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 747,444	\$ 582,184	\$ 172,465	\$ 282,863	\$ 315,938	\$ 2,100,894
Investments	1,875,000	450,000	75,000	325,000	270,000	2,995,000
Receivables:						
Taxes	353,638	-	1,139,132	-	-	1,492,770
Customers	-	75,207	-	-	-	75,207
Special assessments	-	4,181,132	-	1,676,658	3,242	5,861,032
Accrued interest	8,909	3,400	479	1,138	-	13,926
Other	23,128	-	-	-	155	23,283
Due from other funds	166,147	250,000	-	95,839	58,284	570,270
Due from other governments	850,223	-	-	-	29,564	879,787
Prepaid expenditures	20,000	-	-	-	398	20,398
 Total assets	 <u>\$4,044,489</u>	 <u>\$5,541,923</u>	 <u>\$1,387,076</u>	 <u>\$2,381,498</u>	 <u>\$ 677,581</u>	 <u>\$ 14,032,567</u>
 Liabilities and Fund Balances						
Liabilities:						
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ 10,692	\$ 10,692
Accounts payable	95,168	55,695	58,117	-	108,650	317,630
Accrued liabilities	27,042	53,239	-	-	9,012	89,293
Due to other funds	157,298	119,399	-	-	59,691	336,388
Deferred revenue	252,743	4,627,584	1,261,301	1,579,130	-	7,720,758
Total liabilities	<u>532,251</u>	<u>4,855,917</u>	<u>1,319,418</u>	<u>1,579,130</u>	<u>188,045</u>	<u>8,474,761</u>
 Fund balances:						
Reserved for prepaid expenditures	20,000	-	-	-	398	20,398
Unreserved, undesignated	3,492,238	-	-	-	-	3,492,238
Unreserved, undesignated for:						
Special revenue funds	-	686,006	67,658	-	174,398	928,062
Debt service fund	-	-	-	802,368	-	802,368
Capital projects fund	-	-	-	-	314,740	314,740
Total fund balances	<u>3,512,238</u>	<u>686,006</u>	<u>67,658</u>	<u>802,368</u>	<u>489,536</u>	<u>5,557,806</u>
 Total liabilities and fund balances	 <u>\$4,044,489</u>	 <u>\$5,541,923</u>	 <u>\$1,387,076</u>	 <u>\$2,381,498</u>	 <u>\$ 677,581</u>	 <u>\$ 14,032,567</u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
December 31, 2005

Fund balances - total governmental funds	\$ 5,557,806
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	7,774,522
Deduct: accumulated depreciation	(3,028,061)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	1,586,720
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(2,018,635)
Deduct: compensated absences	(623,178)
Deduct: accrued interest on bonds payable	(30,329)

Net assets of governmental activities	<u><u>\$ 9,218,845</u></u>
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The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	<u>General</u>	<u>Fire Fund</u>	<u>Police Fund</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Property taxes	\$ 562,689	\$4,375,309	\$ 747,717	\$ -	\$ -	\$ 5,685,715
Licenses and permits	343,310	-	-	-	760,866	1,104,176
Federal grants	-	-	-	-	35,994	35,994
State-shared revenues	1,912,339	-	-	-	-	1,912,339
Charges for services	-	261,221	-	-	-	261,221
Fines and forfeitures	137,283	-	-	-	-	137,283
Special assessments	56,118	-	-	270,146	-	326,264
Investment earnings	115,071	74,956	10,074	36,817	14,412	251,330
Other	330,389	85,478	-	-	52,810	468,677
Total revenues	<u>3,457,199</u>	<u>4,796,964</u>	<u>757,791</u>	<u>306,963</u>	<u>864,082</u>	<u>10,182,999</u>
Expenditures						
Current:						
General government	2,339,060	-	-	-	-	2,339,060
Public safety	60,001	4,504,039	699,403	-	705,651	5,969,094
Public works	131,101	-	-	-	242,781	373,882
Community and economic development	-	-	-	-	143,054	143,054
Recreation and culture	21,984	-	-	-	-	21,984
Employee benefits and insurance	62,158	-	-	-	-	62,158
Debt service						
Principal	-	-	-	185,000	-	185,000
Interest and fees	-	-	-	82,605	-	82,605
Total expenditures	<u>2,614,304</u>	<u>4,504,039</u>	<u>699,403</u>	<u>267,605</u>	<u>1,091,486</u>	<u>9,176,837</u>
Revenues over (under) expenditures	<u>842,895</u>	<u>292,925</u>	<u>58,388</u>	<u>39,358</u>	<u>(227,404)</u>	<u>1,006,162</u>
Other financing sources (uses)						
Transfers in	-	-	-	95,839	52,551	148,390
Transfers out	(52,551)	(95,839)	-	-	-	(148,390)
Proceeds from bonds and capital lease	-	78,635	-	-	220,000	298,635
Total other financing sources (uses)	<u>(52,551)</u>	<u>(17,204)</u>	<u>-</u>	<u>95,839</u>	<u>272,551</u>	<u>298,635</u>
Net change in fund balances	790,344	275,721	58,388	135,197	45,147	1,304,797
Fund balances, beginning of year (as restated)	<u>2,721,894</u>	<u>410,285</u>	<u>9,270</u>	<u>667,171</u>	<u>444,389</u>	<u>4,253,009</u>
Fund balances, end of year	<u>\$ 3,512,238</u>	<u>\$ 686,006</u>	<u>\$ 67,658</u>	<u>\$ 802,368</u>	<u>\$ 489,536</u>	<u>\$ 5,557,806</u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds \$ 1,304,797

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlay as an expenditure. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	253,900
Deduct: depreciation expense	(246,564)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end.

Add: Special assessment revenues not recorded at fund level	1,127,445
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In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds of the assets sold.

Deduct: gain/loss on sale of capital assets.	(12,343)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities and on refunding bonds	185,000
Deduct: bond proceeds and capital lease	(298,635)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the

Add: decrease in the accrual for compensated absences	235,799
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Change in net assets of governmental activities	<u>\$ 2,549,399</u>
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The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 608,735	\$ 608,735	\$ 562,689	\$ (46,046)
Licenses and permits	277,800	277,800	343,310	65,510
State sources	1,930,105	1,930,105	1,912,339	(17,766)
Fines and forfeitures	127,700	127,700	137,283	9,583
Special assessments	50,000	50,000	56,118	6,118
Investment earnings	55,000	55,000	115,071	60,071
Other	255,135	255,135	330,389	75,254
Total revenues	<u>3,304,475</u>	<u>3,304,475</u>	<u>3,457,199</u>	<u>152,724</u>
Expenditures				
General government:				
Administration	565,815	565,815	256,533	(309,282)
Township Board	38,466	38,466	35,587	(2,879)
Supervisor	160,957	160,957	149,067	(11,890)
Elections	115,666	115,666	138,950	23,284
Assessor	469,859	469,859	359,596	(110,263)
Attorney	140,000	140,000	120,260	(19,740)
Clerk	202,749	202,749	203,827	1,078
Accounting	273,473	273,473	259,426	(14,047)
Cable television committee	25,970	25,970	22,296	(3,674)
Zoning Board of Appeals	75,861	75,861	67,463	(8,398)
Treasurer	369,062	369,062	375,922	6,860
Data processing	2,175	2,175	11,324	9,149
Grounds, hall, and equipment	267,441	267,441	206,254	(61,187)
Building inspection	156,652	156,652	132,555	(24,097)
Total general government	<u>2,864,146</u>	<u>2,864,146</u>	<u>2,339,060</u>	<u>(525,086)</u>
Public safety - Planning	<u>103,416</u>	<u>103,416</u>	<u>60,001</u>	<u>(43,415)</u>

Continued.....

HARRISON CHARTER TOWNSHIP, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Concluded.....				
Public works:				
Engineering	\$ 25,000	\$ 25,000	\$ 83,084	\$ 58,084
Highways and streets	57,900	57,900	19,632	(38,268)
Drainage	28,500	28,500	28,385	(115)
Total public works	<u>111,400</u>	<u>111,400</u>	<u>131,101</u>	<u>19,701</u>
Recreation and culture:				
Parks	17,550	17,550	21,984	4,434
Beautification Commission	325	325	-	(325)
Total recreation and culture	<u>17,875</u>	<u>17,875</u>	<u>21,984</u>	<u>4,109</u>
Employee benefits and insurance:				
Property insurance	58,860	58,860	36,119	(22,741)
Workers' compensation insurance	7,750	7,750	26,039	18,289
Total other functions	<u>66,610</u>	<u>66,610</u>	<u>62,158</u>	<u>(4,452)</u>
Total expenditures	<u>3,163,447</u>	<u>3,163,447</u>	<u>2,614,304</u>	<u>(549,143)</u>
Revenues over (under) expenditures	141,028	141,028	842,895	701,867
Other financing sources (uses)				
Transfers out	<u>(141,028)</u>	<u>(141,028)</u>	<u>(52,551)</u>	<u>(88,477)</u>
Net change in fund balances	-	-	790,344	790,344
Fund balance, beginning of year (as restated)	<u>2,721,894</u>	<u>2,721,894</u>	<u>2,721,894</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 2,721,894</u></u>	<u><u>\$ 2,721,894</u></u>	<u><u>\$ 3,512,238</u></u>	<u><u>\$ 790,344</u></u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Fire Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Property taxes	\$4,262,689	\$ 4,262,689	\$ 4,375,309	\$ 112,620
Charges for services	242,000	242,000	261,221	19,221
Investment earnings	40,000	40,000	74,956	34,956
Other	4,000	4,000	85,478	81,478
Total revenues	<u>4,548,689</u>	<u>4,548,689</u>	<u>4,796,964</u>	<u>248,275</u>
Expenditures - Public safety	<u>4,548,689</u>	<u>4,548,689</u>	<u>4,504,039</u>	<u>(44,650)</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>292,925</u>	<u>292,925</u>
Other financing sources (uses)				
Transfers out	-	-	(95,839)	(95,839)
Proceeds from bond issuance	<u>-</u>	<u>-</u>	<u>78,635</u>	<u>78,635</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(17,204)</u>	<u>(17,204)</u>
Net change in fund balances	-	-	275,721	275,721
Fund balance, beginning of year	<u>410,285</u>	<u>410,285</u>	<u>410,285</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 410,285</u></u>	<u><u>\$ 410,285</u></u>	<u><u>\$ 686,006</u></u>	<u><u>\$ 275,721</u></u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Police Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 744,200	\$ 744,200	\$ 747,717	\$ 3,517
Investment earnings	5,000	5,000	10,074	5,074
Total revenues	749,200	749,200	757,791	8,591
Expenditures - Public safety	749,200	749,200	699,403	(49,797)
Net change in fund balances	-	-	58,388	58,388
Fund balance, beginning of year	9,270	9,270	9,270	-
Fund balance, end of year	\$ 9,270	\$ 9,270	\$ 67,658	\$ 58,388

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Net Assets

Proprietary Funds

December 31, 2005

Assets	Water/ Sewer
Current assets:	
Cash and cash equivalents	\$ 954,414
Investments	4,950,000
Accounts receivable:	
Customer	1,176,810
Accrued interest	36,670
Other	2,507
Due from other funds	122,574
Inventories	200,720
Total current assets	<u>7,443,695</u>
Noncurrent assets:	
Nondepreciable capital assets	788,529
Depreciable capital assets	37,336,682
Less accumulated depreciation	(16,975,163)
Total noncurrent assets	<u>21,150,048</u>
Total assets	<u>28,593,743</u>
Liabilities	
Current liabilities:	
Accounts payable	465,291
Accrued liabilities	70,327
Due to other funds	356,456
Total current liabilities	<u>892,074</u>
Net Assets	
Investment in capital assets	21,150,048
Unrestricted	<u>6,551,621</u>
Total net assets	<u>\$ 27,701,669</u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds For the Year Ended December 31, 2005

	<u>Water/ Sewer</u>
Operating revenues	
Charges for services	\$ 5,266,498
Tap fees	368,000
Other revenues	<u>13,780</u>
Total operating revenues	<u>5,648,278</u>
Operating expenses	
Cost of water produced/purchased	1,087,680
Cost of sewage treatment	1,655,152
Operation and maintenance	539,047
Personnel services	1,364,827
Depreciation	<u>919,566</u>
Total operating expenses	<u>5,566,272</u>
Operating income	82,006
Non-operating revenues (expenses)	
Interest income	<u>162,459</u>
Income before capital contributions	244,465
Capital contributions	<u>186,188</u>
Change in net assets	430,653
Net assets, beginning of year (as restated)	<u>27,271,016</u>
Net assets, end of year	<u><u>\$ 27,701,669</u></u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2005

	<u>Water/ Sewer</u>
Cash flows from operating activities	
Receipts from customers	\$ 5,830,237
Cash payments to employees	(1,416,855)
Cash payments to suppliers for goods and services	<u>(3,249,511)</u>
Net cash provided by operating activities	<u>1,163,871</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(77,537)
Capital contributions from connection fees	<u>186,188</u>
Net cash provided by capital and related financing activities	<u>108,651</u>
Cash flows from investing activities	
Purchase of investments	(2,319,842)
Investment interest	<u>134,904</u>
Net cash (used in) investing activities	<u>(2,184,938)</u>
Net increase in cash and cash equivalents	(912,416)
Cash and cash equivalents, beginning of year	<u>1,866,830</u>
Cash and cash equivalents, end of year	<u><u>\$ 954,414</u></u>

Continued....

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Cash Flows (Concluded)

Proprietary Funds

For the Year Ended December 31, 2005

	<u>Water/ Sewer</u>
Reconciliation of operating income (loss)	
to net cash provided by operating activities	
Operating income	\$ 82,006
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Depreciation	919,566
Changes in assets and liabilities:	
Receivables	212,341
Inventory	(67,879)
Due from other funds	(30,382)
Accounts payable	(6,209)
Accrued and other liabilities	(52,028)
Due to other funds	<u>106,456</u>
Net cash provided by	
operating activities	<u><u>\$ 1,163,871</u></u>

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Fiduciary Net Assets

Fiduciary Funds

December 31, 2005

	Pension and Other Employee Benefit Trusts	Agency
ASSETS		
Cash and cash equivalents	\$ 445,010	\$1,084,116
Investments		
U.S. government and its agencies	3,192,526	-
Corporate bonds	3,846,907	-
Mutual funds	10,378,673	-
Stocks	7,959,084	-
Other	345,000	1,525,000
Receivables:		
Accrued interest	40,483	6,607
Employer contributions	-	-
Total investments	<u>25,762,673</u>	<u>1,531,607</u>
Total assets	<u>26,207,683</u>	<u>\$2,615,723</u>
LIABILITIES		
Liabilities		
Due to other governmental units	-	\$1,173,325
Cash bonds and deposits	-	1,442,398
Total liabilities	<u>-</u>	<u>\$2,615,723</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 26,207,683</u>	

The accompanying notes are an integral part of these financial statements.

HARRISON CHARTER TOWNSHIP, MICHIGAN

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended December 31, 2005

	<u>Pension and Other Employee Benefit Trusts</u>
Additions	
Contributions	
Employer contributions	\$ 969,920
Plan member contributions	<u>182,185</u>
Total contributions	<u>1,152,105</u>
Investment income	
Net appreciation in fair value	86,003
Interest	<u>1,090,310</u>
Total investment income	1,176,313
Less investment expense	<u>(65,340)</u>
Net investment income	<u>1,110,973</u>
Total additions	<u>2,263,078</u>
Deductions	
Benefits	<u>1,853,576</u>
Total deductions	<u>1,853,576</u>
Net increase (decrease) in plan net assets	409,502
Net assets held in trust for pension benefits - beginning of year	<u>25,798,181</u>
Net assets held in trust for pension benefits - end of year	<u><u>\$ 26,207,683</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Township of Harrison, Michigan elected Charter Township status in June 1978. The Charter Township of Harrison (Township) provides the following services as authorized by its charter: public safety (police, fire, and building inspections), highways and streets, sanitation, public improvements, recreation, planning, and general administrative services.

The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The Economic Development Corporation is the Township's discretely presented component unit.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Measurement focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Fire Fund. The Fire Fund is used to account for the activities related to the Township providing fire protection to their own community.

Police Fund. The Police Fund is used to account for the activities related to the Township policing their own community.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Debt Service Fund. The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Township reports the following major proprietary fund:

Water and Sewer Fund. The Water and Sewer Fund is maintained for the operations of the water distribution system and sewage pumping and water collection system. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Special revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Capital Project Funds. These funds account for revenue sources that are restricted to expenditures for capital projects.

Pension and Other Employee Benefits Trust Funds. The Pension and Other Employee Benefits Trust Funds account for the activities of the Fireman's Pension, the Employees' Retirement System, and the Retiree Healthcare Fund, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

Agency Funds. Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds principal ongoing operations. Principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Township are reported at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

2. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds" activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

All trade, notes, contracts and property tax receivables are shown net of an allowance for uncollectibles.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two (2) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Storm drains	50
Water and sewer lines and mains	27 to 50
Buildings and improvements	10 to 45
Machinery and equipment	5 to 20

5. Accumulated unpaid sick and vacation pay

The Township has a policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees are paid for half of their unused sick days. Sick and vacation liabilities are recorded as liabilities in the government-wide statements.

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other Township funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted on a departmental (activity) basis through passage of a resolution in accordance with Public Act 621 of the State of Michigan.
4. The Supervisor is authorized to transfer budgeted amounts within departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. The amount of encumbrances at year end is not known. Also, all budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Budget appropriations lapse at year-end.

Budgeted amounts are reported on the financial statements as originally adopted and as amended by the Township Board.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations at the departmental level by the following amounts:

	<u>Budget</u>	<u>Actual</u>	<u>Over Budget</u>
Governmental Funds			
General Fund:			
Public works	\$ 111,400	\$ 131,101	\$ 19,701
Parks and recreation	17,875	21,984	4,109
Nonmajor Special Revenue Funds			
Building inspections	696,756	705,651	8,895
Grants	139,491	143,054	3,563

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Following is a reconciliation of deposit and investment balances as of December 31, 2005:

	<u>Deposits</u>	<u>Investment</u>	<u>Other</u>	<u>Total</u>
Deposits and Investments				
Government - wide financial statement captions:				
Cash & cash equivalents	\$ 3,043,714	\$ -	\$ 903	\$ 3,044,617
Investment	7,945,000	-	-	7,945,000
Fiduciary fund financial statement captions:				
Cash & cash equivalents	1,529,126	-	-	1,529,126
Investment	1,870,000	25,377,190	-	24,247,190
Component unit financial statement captions:				
Cash & cash equivalents	<u>11,921</u>	<u>-</u>	<u>-</u>	<u>11,921</u>
Totals	<u>\$ 14,399,761</u>	<u>\$ 25,377,190</u>	<u>\$ 903</u>	<u>\$ 39,777,854</u>

The amount included in the "Other" category above represents petty cash.

Statutory Authority

The Township is authorized by statute to invest surplus funds in the following:

- Bonds, securities, and other direct obligations of the United States or any agency or

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

instrumentality of the United States.

- b. Repurchase agreements.
- c. Bankers' acceptances of United States banks.
- d. Commercial paper rated within the two highest classifications and mature not more than 270 days after the date of purchase.
- e. Obligations of the State of Michigan or its political subdivisions and are rated as investment grade.
- f. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Board of Commissioners is authorized to designate depositories for the Township's funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Township's deposits are in accordance with statutory authority.

The Township's investments are categorized below to give an indication of the level of risk assumed by the entity at December 31, 2005.

Type of investment	Rating							Total
	AAA	AA	A	BBB	BB	B	NR	
US government and its agencies								
less than 1 year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1 to 5 years	639,679	-	-	-	-	-	-	639,679
6 to 10 years	193,841	-	-	-	-	-	-	193,841
11+ years	1,731,920	-	-	-	-	-	-	1,731,920
n/a	-	-	-	-	-	-	627,079	627,079
Corporate bonds								
less than 1 year	-	-	231,373	68,573	-	-	-	299,946
1 to 5 years	-	-	390,918	528,841	140,492	-	-	1,060,251
6 to 10 years	36,862	-	519,383	446,205	-	-	-	1,002,450
11+ years	93,573	-	80,480	112,344	184,492	-	-	470,889
n/a	-	-	312,534	322,140	338,881	39,816	-	1,013,371
Mutual Funds								
n/a	-	-	-	-	-	-	10,378,674	10,378,674
Stock								
n/a	-	-	-	-	-	-	7,959,084	7,959,084
Total	\$ 2,695,875	\$ -	\$ 1,534,688	\$ 1,478,103	\$ 663,865	\$ 39,816	\$ 18,964,838	\$ 25,377,185

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities on the Township's investments are shown in the schedule above.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the Township's investment policy limits investments to B or higher by Standard & Poor's. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. As of December 31, 2005, the Township's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end \$13,599,767 of the Township's bank balance of \$14,399,761 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are either uninsured, unregistered, and held by a counterparty in the Township's name or are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

B. Receivables

Receivables in the governmental activities are 88.1 percent taxes and special assessments, 10.5 percent due from other governments, .2 percent accrued interest and 1.2 percent other.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The amount of special assessment receivables not expected to be collected in one year is \$2,279,808. Business-type activities receivables are 100 percent due from customers.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were related primarily to the unearned revenue from the December 1st tax roll.

C. Capital assets

	Beginning Balance	Additions	Disposals and Adjustments	Balance 12/31/05
Government activities				
Capital assets, non depreciable:				
Land	\$ 580,158	\$ -	\$ -	\$ 580,158
Construction in progress	2,315,056	-	2,315,056	-
Total capital assets, not being depreciated	2,895,214	-	2,315,056	580,158
Capital assets, depreciable:				
Buildings	1,283,843	2,323,156	-	3,606,999
Machinery and Equipment	2,785,642	245,800	135,270	2,896,172
Infrastructure - Storm Drains	691,193	-	-	691,193
Total capital assets being depreciated	4,760,678	2,568,956	135,270	7,194,364
Less accumulated depreciation for:				
Buildings	546,564	101,554	-	648,118
Machinery and Equipment	2,217,711	131,186	122,928	2,225,969
Infrastructure - Storm Drains	140,150	13,824	-	153,974
Total accumulated depreciation	2,904,425	246,564	122,928	3,028,061
Total capital assets, depreciable, net	1,856,253	2,322,392	12,342	4,166,303
Governmental activities capital assets, net	\$ 4,751,467	\$ 2,322,392	\$ 2,327,398	\$ 4,746,461

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Additions	Disposals and Adjustments	Balance 12/31/05
Business-type activities				
Capital assets, non depreciable:				
Land	704,292	-	-	704,292
Construction in progress	12,183	72,054	-	84,237
Total capital assets, not being depreciated	716,475	72,054	-	788,529
Buildings	691,859	-	-	691,859
Machinery & equipment	2,330,608	5,485	(3)	2,336,096
Water mains & lines	10,817,625	-	1	10,817,624
Sewer mains & lines	23,420,447	-	-	23,420,447
Sprinkler (watermain improvement)	70,660	-	4	70,656
Total capital assets being depreciated	37,331,199	5,485	2	37,336,682
Less accumulated depreciation for:				
Buildings	285,238	16,268	-	301,506
Machinery & equipment	1,682,267	215,819	-	1,898,086
Water mains & lines	3,827,430	216,145	-	4,043,575
Sewer mains & lines	10,247,238	469,921	-	10,717,159
Sprinkler (watermain improvement)	13,424	1,413	-	14,837
Total accumulated depreciation	16,055,597	919,566	-	16,975,163
Total capital assets, depreciable, net	21,275,602	(914,081)	2	20,361,519
Business-type activities capital assets, net	<u>\$ 21,992,077</u>	<u>\$ (842,027)</u>	<u>\$ 2</u>	<u>\$ 21,150,048</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 102,109
Public safety	<u>144,455</u>
Total depreciation expense - Governmental Activities	<u>\$ 246,564</u>
Business-type activities	
Water	\$ 290,886
Sewer	<u>628,680</u>
Total depreciation expense - Business-type activities	<u>\$ 919,566</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

D. Interfund receivables, payables, and transfers

The composition of interfund balances at December 31, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental funds	General Fund	\$ 58,284
Debt Service Fund	Fire Fund	95,839
Water and Sewer Fund	Fire Fund	23,560
Water and Sewer Fund	General Fund	99,014
General Fund	Nonmajor governmental funds	59,691
General Fund	Water and Sewer Fund	106,456
Fire Fund	Water and Sewer Fund	250,000
		<u>\$ 692,844</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 52,551
Fire Fund	Debt Service Fund	95,839
		<u>\$ 148,390</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, (3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

E. Leases

The Township has entered into a lease agreement as lessee for financing the acquisition of fire equipment with a down payment of \$15,645. This agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The asset acquired through the capital lease is as follows:

Equipment	\$ 94,280
Less: accumulated depreciation	<u>(7,857)</u>
Total	<u>\$ 86,423</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005 were as follows:

<u>Year</u>	<u>Payment</u>
2006	\$ 29,756
2007	29,756
2008	<u>28,094</u>
Total minimum lease payments	87,606
Less: amount representing interest	<u>(8,971)</u>
Present value of minimum lease payments	<u>\$ 78,635</u>

F. Long-term debt

The Township issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Additionally, the Township issues special assessment limited tax bonds to fund improvement projects. Bonds have been issued for governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds are financed through taxes for certain affected property owners in the Township.

Bond and contractual obligation activity can be summarized as follows:

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2002 Fire Station Unlimited Tax General Obligation Bonds					
Amount of issue: \$995,000					
Maturing through March 1, 2017					
Interest rate ranges: 4.50% - 5.20%	\$ 970,000	\$ -	\$ (50,000)	\$ 920,000	\$ 50,000
Special assessment bonds:					
1998 Paving District No. 199, 200, and 201 Limited Tax Bonds					
Amount of issue: \$515,000					
Maturing through March 1, 2008					
Interest rate ranges: 4.30% - 6.00%	210,000	-	(50,000)	160,000	55,000
2001 Paving District No. 202 Limited Tax Bonds					
Amount of issue \$205,000					
Maturing through: February 1, 2011					
Interest rate ranges: 3.80% - 4.70%	150,000	-	(25,000)	125,000	20,000
2002 Paving District No. 203 Limited Tax Bonds					
Amount of issue: \$420,000					
Maturing through February 1, 2012					
Interest rate ranges: 3.75% - 6.75%	350,000	-	(45,000)	305,000	45,000
2004 Dredging District No. 204 Limited Tax Bonds					
Amount of issue: \$225,000					
Maturing through February 1, 2014					
Interest rate ranges: 3.20% - 6.20%	225,000	-	(15,000)	210,000	25,000
2005 Lakeshore/Lakeville No. 205 Limited Tax Bonds					
Amount of issue: \$220,000					
Maturity through October 1, 2015					
Interest rate ranges: 4.00% - 4.50%	-	220,000	-	220,000	15,000
Other long-term obligations					
Capital leases	-	78,635	-	78,635	25,346
Compensated absences	858,977	702,525	(938,324)	623,178	-
 Total governmental activities	 \$ 2,763,977	 \$1,001,160	 \$(1,123,324)	 \$ 2,641,813	 \$ 235,346

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations are as follows:

	Principal Due	Interest Due
2006	\$ 235,346	\$ 84,847
2007	246,740	75,647
2008	241,549	64,946
2009	185,000	54,891
2010	190,000	46,903
2011-2015	720,000	128,031
2016-2017	200,000	10,375
	<u>\$ 2,018,635</u>	<u>\$ 465,640</u>

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of townships cannot exceed 10% of the assessed real and personal property in the Township. As of December 31, 2005, the Charter Township of Harrison had not incurred any indebtedness that would be limited under Act 359.

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has purchased commercial insurance for medical benefits, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and the Michigan Townships Participating Plan for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

B. Property taxes

The Township levies property taxes on December 1 each year, which are payable without penalty through February 28. These taxes become liens on the property at that date. However, the revenues generated by the tax levy cannot be appropriated until the budget year following the levy date. The asset created by the levy on December 1 is recorded in the appropriate fund as current taxes receivable. In addition, a deferred revenue offset account is recorded recognizing the funds as unavailable for current appropriation. Tax collections made from December 1 through December 31 in the current tax agency fund are recorded as unallocated tax collections. These monies are distributed to the appropriate funds in the ensuing budget year. Revenues generated by the levy of a 1% property tax administrative fee are recognized on a cash basis.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

D. Employee retirement systems and pension plans

Plan description

Employees' Retirement System. The Employee's Retirement System is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Employees' Retirement System Pension Board. This plan covers substantially all full-time employees (except firemen) of the township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at L'Anse Creuse Road, Harrison Township, MI 48045.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Firemen's Pension Fund. The Firemen's Pension Fund is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Firemen's Pension Board. This plan covers substantially all full-time employees of the Charter Township of Harrison fire department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at L'Anse Creuse Road, Harrison Township, MI 48045.

Eligibility

Employees' Retirement System. The Plan provides eligible participants with retirement benefits as well as disability benefits. All retirement benefits fully vest after age 55, with 8 years of service, or completion of 25 years of service, whichever is earliest. Once vested, employees are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.5% of final average compensation (FAC) times first 25 years of service plus 1% of FAC times years of service in excess of 25 years.

At December 31, 2004 the Plan Participants consisted of:

Retirees and beneficiaries currently receiving benefits	39
Terminated plan members entitled to but not yet receiving benefits	11
Active plan members	<u>37</u>
Total	<u>87</u>

Firemen's Pension Fund. The Plan provides eligible participants with retirement benefits as well as disability benefits. All retirement benefits fully vest after 20 years of credited service, with partial vesting granted for service 10 and 20 years. Employees who retire at age 55 are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.8% of 3-year average final compensation (AFC) times first 20 years of service plus 1.8% of AFC times years of service in excess of 20 years, up to 25 years + 1% of AFC times years of service in excess of 25, up to 30 years. Maximum benefit is 70% times AFC.

At December 31, 2004 the Plan Participants consisted of:

Retirees and beneficiaries currently receiving benefits	23
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>27</u>
Total	<u>51</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Investments

Employees' Retirement System. The Township maintains an investment policy for the Plan that provides the following Aggregate System Asset Allocation Guidelines (at market value):

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Equities	20%	70%	65%
Fixed Income	25%	40%	34.5%
Cash and Equivalents	0%	10%	0.5%

Firemen's Pension Fund. The Township maintains an investment policy for the Plan which permits up to 60% of Pension Trust Fund assets to be invested in high quality fixed income securities and 25% to 70% in equity type securities.

Required contributions

Employees' Retirement System. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5% of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 16.80% of covered payroll.

Firemen's Pension Fund. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5% of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 21.33% of covered payroll.

Summary of significant accounting policies

a. Basis of accounting

Employees' Retirement System and Firemen's Pension Fund. The Plan's financial statements are prepared using the accrual basis of accounting. The Township's contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The administrative costs are financed through investment earnings.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

b. Method used to value investments

Employees' Retirement System and Firemen's Pension Fund. Equity investments and bonds are reported at fair value. GIC investments are valued at estimated fair value. The investments of both plans are not federally insured.

c. Annual pension cost and net pension obligation

Employees' Retirement System. For the year ended December 31, 2005, the Township's annual pension cost of \$314,665 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions include (a) 7% investment rate of return, (b) projected salary increases of 5% to 8.8% per year, and (c) cost of living adjustments for supervisory employees of 10% after 5 and 10 years. Both (a) and (b) include an inflation component of 5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized using the level percent open method. The remaining amortization period is 27 years.

Firemen's Pension Fund. For the year ended December 31, 2005, the Township's annual pension cost of \$436,636 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions include (a) a 7.5% investment rate of return, and (b) a projected salary increase of 5.5% per year. There is no adjustment for cost of living. Both (a) and (b) include an inflation component of 5.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized using the level percent open method. The remaining amortization period is 30 years.

Trend information

Employees' Retirement System

<u>Fiscal Year Ending</u>	<u>Annual Pension Percentage of APC</u>		<u>Net Pension Obligation</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	
12/31/03	\$ 312,506	100%	\$ -
12/31/04	330,751	100%	\$ -
12/31/05	314,665	100%	\$ -

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Firemen's Pension Fund

<u>Fiscal Year Ending</u>	<u>Annual Pension Percentage of APC</u>		<u>Net Pension Obligation</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	
12/31/03	\$ 437,191	100%	\$ -
12/31/04	410,281	100%	\$ -
12/31/05	436,636	100%	\$ -

E. Other Post Employment Benefits

In addition to providing pension benefits, the Township provides certain health care and life insurance benefits for retired employees as established by collective bargaining agreements with local union organizations as approved by the board. Currently, 64 retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants who retired prior to January 4, 1996. Contributions for participants who retire after January 3, 1996 will be funded by the Township based on years of service as follows: 10 years and under – 25 percent; 11 years through 15 years – 50 percent; over 15 years – 100 percent. The Township recognizes the cost of providing these benefits by expensing the annual healthcare and insurance billings, which were \$597,585 for 2005.

F. Prior period adjustment

Due to corrections made for the prior year, the Township has restated the beginning net assets and fund balances for the following funds and governmental activities. The effect on the beginning fund balances and net assets is as follows:

General Fund:

Prior year fund balance as previously stated	\$ 2,031,292
To recognize land sale proceeds from 1997	89,460
To recognize closeout of escrow account from vendor software settlement prior to 1996	15,444
Adjustment to recognize state shared revenue for the February 2005 payment that should be recognized in 2004.	342,698
To eliminate reserve for employee pension account that represented anticipated payments for subsequent year.	<u>243,000</u>
Adjusted beginning net assets	<u>\$ 2,721,894</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Firemans Pension Fund:

Prior year net assets as previously stated.	\$ 14,290,830
Adjustment to recognize Raymond James account not included in prior year audit.	<u>101,575</u>
Adjusted beginning net assets	<u>\$ 14,392,405</u>

Employee Pension Fund:

Prior year net assets as previously stated.	\$ 11,641,306
Amount recorded as receivable in prior year that represented anticipated payments for subsequent year.	<u>(382,000)</u>
Adjusted beginning net assets	<u>\$ 11,259,306</u>

Water/Sewer Fund:

Prior year net assets as previously stated.	\$ 27,260,384
Record adjustments per year end lateral master control sheet.	18,967
To reverse amortization expense on contributed capital in FY2005 in anticipation of moving contributed capital to the fund balance as of Jan 1.	(36,939)
To reclass lateral contributions from fund balance accounts to contributed capital revenue account.	(134,552)
To rollforward "Reclass to CIP" account that did not rollforward during close of prior year.	64,907
To reclass remaining lateral revenue that was posted to fund balance account.	(40,751)
Eliminate employer contribution receivable.	<u>139,000</u>
Adjusted beginning net assets	<u>\$ 27,271,016</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Governmental Activities:

Prior year net assets as previously stated.	\$ 6,321,543
To recognize land sale proceeds from 1997.	89,460
To recognize closeout of escrow account from vendor software settlement prior to 1996.	15,443
To eliminate reserve for employee pension account that represented anticipated payments for subsequent year.	<u>243,000</u>
Adjusted beginning net assets	<u>\$ 6,669,446</u>

G. Construction code revenue/expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. The Township has established a Building Inspections fund to properly account for construction fees.

* * * * *

***Required Supplementary
Information***

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

Required Supplementary Information (Unaudited)

Employees' Retirement System

Trend Information

Schedule of Funding Progress						
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Attained Age# (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded ratio % (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
1999	\$ 9,508,833	\$ 10,065,818	\$ 556,985	94.5%	\$ 2,076,516	26.8%
2000	10,086,683	10,584,130	497,447	95.3%	2,129,790	23.4%
2001	10,603,709	11,437,172	833,463	92.7%	2,271,123	36.7%
2002	10,851,905	12,188,641	1,336,736	89.0%	2,544,024	52.5%
2003	11,274,486	12,823,259	1,548,773	87.9%	2,292,453	67.6%
2004	11,702,984	13,502,202	1,799,218	86.7%	1,793,292	100.3%

Schedule of Employer Contributions					
Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution based on Projected Payroll	Actual Annual Contributions	Percent of Required Contribution	
2000	14.87%	\$ 312,527	\$ 329,489	100%	
2001	15.36%	334,900	370,395	100%	
2002	15.44%	345,282	437,514	100%	
2003	15.02%	341,123	312,506	100%	
2004	15.90%	424,725	330,751	100%	
2005	16.80%	404,389	314,665	100%	

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

Required Supplementary Information (Unaudited)

Firemen's Pension Fund

Trend Information

Schedule of Funding Progress						
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Attained Age# (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded ratio % (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
1999	\$ 11,111,722	\$ 11,091,891	\$ (19,831)	100.2%	\$ 1,636,166	-1.2%
2000	11,916,284	12,028,593	112,309	99.1%	1,828,011	6.1%
2001	12,483,861	12,291,086	(192,775)	101.6%	1,678,054	-11.5%
2002	12,816,039	12,921,489	105,450	99.2%	1,949,550	5.4%
2003	13,592,377	13,706,190	113,813	99.2%	2,046,793	5.6%
2004	14,400,476	14,294,856	(105,620)	100.7%	1,863,799	-5.7%

Schedule of Employer Contributions					
Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution based on Projected Payroll	Actual Annual Contributions	Percent of Required Contribution	
2000	20.94%	310,354	362,451	100%	
2001	19.25%	314,962	345,071	100%	
2002	20.25%	393,388	429,662	100%	
2003	21.59%	358,495	437,191	100%	
2004	21.33%	444,058	410,281	100%	
2005	20.74%	460,593	436,636	100%	

***Combining and
Individual Fund Financial
Statements and Schedules***

HARRISON CHARTER TOWNSHIP, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	<u>Nonmajor Special Revenue Funds</u>		
	<u>Grant</u>	<u>Parks and Recreation</u>	<u>Building Inspections</u>
Assets			
Cash and cash equivalents	\$ -	\$ 91	\$ 24,698
Investments	-	20,000	200,000
Receivables:			
Accrued interest	-	42	3,055
Other	155	-	-
Due from other funds	-	-	-
Due from other governments	29,564	-	-
Prepaid expenditures	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 29,719</u>	<u>\$ 20,133</u>	<u>\$ 227,753</u>
Liabilities			
Cash overdraft	\$ 10,692	\$ -	\$ -
Accounts payable	2,027	-	21,785
Accrued liabilities	1,751	-	7,261
Due to other funds	-	-	59,691
Total liabilities	<u>14,470</u>	<u>-</u>	<u>88,737</u>
Fund balance:			
Unreserved, undesignated	<u>15,249</u>	<u>20,133</u>	<u>139,016</u>
Total liabilities and fund balance	<u>\$ 29,719</u>	<u>\$ 20,133</u>	<u>\$ 227,753</u>

Nonmajor Capital Projects Funds			
Building and Site	Special Assessments Capital Projects	Special Assessments Revolving	Total Nonmajor Governmental Funds
\$ 87,507	\$ 184,146	\$ 19,496	\$ 315,938
-	50,000	-	270,000
-	145	-	3,242
-	-	-	155
-	-	58,284	58,284
-	-	-	29,564
-	-	398	398
<u>\$ 87,507</u>	<u>\$ 234,291</u>	<u>\$ 78,178</u>	<u>\$ 677,581</u>
\$ -	\$ -	\$ -	\$ 10,692
80,740	4,098	-	108,650
-	-	-	9,012
-	-	-	59,691
<u>80,740</u>	<u>4,098</u>	<u>-</u>	<u>188,045</u>
<u>6,767</u>	<u>230,193</u>	<u>78,178</u>	<u>489,536</u>
<u>\$ 87,507</u>	<u>\$ 234,291</u>	<u>\$ 78,178</u>	<u>\$ 677,581</u>

HARRISON CHARTER TOWNSHIP, MICHIGAN
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2005

	<u>Nonmajor Special Revenue Funds</u>		
	<u>Grant</u>	<u>Parks and Recreation</u>	<u>Building Inspections</u>
Revenues			
Licenses and permits	\$ -	\$ -	\$ 760,866
Federal sources	35,994	-	-
Interest income	222	590	7,011
Other	52,810	-	-
Total revenues	<u>89,026</u>	<u>590</u>	<u>767,877</u>
Expenditures			
Public safety	\$ -	\$ -	\$ 705,651
Public works	-	-	-
Community development	143,054	-	-
Total expenditures	<u>143,054</u>	<u>-</u>	<u>705,651</u>
Revenues over (under) expenditures	<u>(54,028)</u>	<u>590</u>	<u>62,226</u>
Other financing sources (uses)			
Transfers in	52,551	-	-
Proceeds from bond issuance	-	-	-
Total other financing sources (uses)	<u>52,551</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(1,477)	590	62,226
Fund balances, beginning of year	<u>16,726</u>	<u>19,543</u>	<u>76,790</u>
Fund balances, end of year	<u>\$ 15,249</u>	<u>\$ 20,133</u>	<u>\$ 139,016</u>

Nonmajor Capital Projects Funds			
Building and Site	Special Assessments Capital Projects	Special Assessments Revolving	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	760,866
-	-	-	35,994
57	6,532	-	14,412
-	-	-	52,810
<u>57</u>	<u>6,532</u>	<u>-</u>	<u>864,082</u>
\$ -	\$ -	\$ -	705,651
2,049	240,732	-	242,781
-	-	-	143,054
<u>2,049</u>	<u>240,732</u>	<u>-</u>	<u>1,091,486</u>
<u>(1,992)</u>	<u>(234,200)</u>	<u>-</u>	<u>(227,404)</u>
-	-	-	52,551
-	220,000	-	220,000
<u>-</u>	<u>220,000</u>	<u>-</u>	<u>272,551</u>
(1,992)	(14,200)	-	45,147
<u>8,759</u>	<u>244,393</u>	<u>78,178</u>	<u>444,389</u>
<u>\$ 6,767</u>	<u>\$ 230,193</u>	<u>\$ 78,178</u>	<u>\$ 489,536</u>

HARRISON CHARTER TOWNSHIP, MICHIGAN

Combining Statement of Net Assets

Fiduciary Funds

December 31, 2005

	Pension and Other Employee Benefit Trust Funds		
	Firemen's Pension Trust	Employees' Retirement System Trust	Retiree Healthcare Fund
ASSETS			
Cash and cash equivalents	\$ 121,060	\$ 300,159	\$ 23,791
Investments			
U.S. government and its agencies	627,079	2,565,447	-
Corporate bonds	2,738,703	1,108,204	-
Mutual funds	9,323,217	1,055,456	-
Stocks	1,459,390	6,499,694	-
Other	-	-	345,000
Receivables:			
Accrued interest	9,697	29,108	1,678
Total assets	<u>14,279,146</u>	<u>11,558,068</u>	<u>370,469</u>
LIABILITIES			
Due to other governmental units	-	-	-
Cash bonds and deposits	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Held in trust for pension benefits and other purposes	<u>\$ 14,279,146</u>	<u>\$ 11,558,068</u>	<u>\$ 370,469</u>

Agency Funds			
Total	Tax Receiving	Trust and Agency	Total
\$ 445,010	\$ 1,173,325	\$ (89,209)	\$ 1,084,116
3,192,526	-	-	-
3,846,907	-	-	-
10,378,673	-	-	-
7,959,084	-	-	-
345,000	-	1,525,000	1,525,000
40,483	-	6,607	6,607
26,207,683	\$ 1,173,325	\$ 1,442,398	\$ 2,615,723
-	\$ 1,173,325	\$ -	\$ 1,173,325
-	-	1,442,398	1,442,398
-	\$ 1,173,325	\$ 1,442,398	\$ 2,615,723
\$ 26,207,683			

HARRISON CHARTER TOWNSHIP, MICHIGAN

Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds For the Year Ended December 31, 2005

	<u>Firemen's Pension Trust</u>	<u>Employees' Retirement System Trust</u>	<u>Retiree Healthcare Fund</u>	<u>Total</u>
Additions				
Contributions				
Employer contributions	\$ 436,636	\$ 314,665	\$ 218,619	\$ 969,920
Plan member contributions	108,731	73,454	-	182,185
	<u>545,367</u>	<u>388,119</u>	<u>218,619</u>	<u>1,152,105</u>
Investment income				
Net appreciation in fair value	(406,366)	492,369	-	86,003
Interest	757,663	327,267	5,380	1,090,310
	<u>351,297</u>	<u>819,636</u>	<u>5,380</u>	<u>1,176,313</u>
Less investment expense	(2,779)	(62,561)	-	(65,340)
	<u>348,518</u>	<u>757,075</u>	<u>5,380</u>	<u>1,110,973</u>
Total additions	<u>893,885</u>	<u>1,145,194</u>	<u>223,999</u>	<u>2,263,078</u>
Deductions				
Benefits	1,007,144	846,432	-	1,853,576
Total deductions	<u>1,007,144</u>	<u>846,432</u>	<u>-</u>	<u>1,853,576</u>
Net increase in plan net assets	(113,259)	298,762	223,999	409,502
Net assets held in trust for pension benefits - beginning of year (as restated)	<u>14,392,405</u>	<u>11,259,306</u>	<u>146,470</u>	<u>25,798,181</u>
Net assets held in trust for pension benefits - end of year	<u>\$ 14,279,146</u>	<u>\$ 11,558,068</u>	<u>\$ 370,469</u>	<u>\$ 26,207,683</u>

***Internal Control
and Compliance***



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

May 10, 2006

To the City Council
Charter Township of Harrison
Harrison Township, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Charter Township of Harrison, Michigan*** as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated May 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ***Charter Township of Harrison, Michigan's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Charter Township of Harrison, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Township Supervisor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.